

Sampson &  
Associates, Inc.

**MALACHI HOUSE, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2023**

**MALACHI HOUSE, INC.  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
**Malachi House, Inc.**  
Cleveland, Ohio

### Opinion

We have audited the accompanying financial statements of **Malachi House, Inc.** (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets—cash basis as of June 30, 2023, and the related statement of revenue, expenses and other changes in net assets—cash basis and statement of functional expenses—cash basis for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of **Malachi House, Inc.** as of June 30, 2023, and its revenue, expenses and changes in net assets for the year then ended in accordance with the cash basis of accounting as described in Note A.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Malachi House, Inc.** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note A, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

# Sampson & Associates, Inc.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Malachi House, Inc.'s** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Malachi House Inc.'s** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Rocky River, Ohio  
November 17, 2023

STATEMENT OF ASSETS, LIABILITIES AND

NET ASSETS - CASH BASIS

June 30, 2023

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	583,193
Restricted cash		66,329
Investments		<u>17,190,817</u>
<b>TOTAL CURRENT ASSETS</b>		<b><u>17,840,339</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

-

**NET ASSETS**

Without donor restrictions		8,920,854
With donor restrictions		<u>8,919,485</u>
<b>TOTAL NET ASSETS</b>		<b><u>17,840,339</u></b>

**TOTAL LIABILITIES AND NET ASSETS** \$ **17,840,339**

**MALACHI HOUSE, INC.**  
**STATEMENT OF REVENUE, EXPENSES, AND OTHER CHANGES**  
**IN NET ASSETS - CASH BASIS**  
**Year Ended June 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, LOSSES AND RECLASSIFICATIONS</b>			
Contributions	\$ 773,071	-	773,071
Benefit events	146,418	-	146,418
Grants	431,225	80,288	511,513
Investment income, net	331,770	-	331,770
Investment income - partnership	34,463	-	34,463
Net realized and unrealized gains (losses) on endowments	-	1,177,153	1,177,153
	1,716,947	1,257,441	2,974,388
Net assets released from restrictions and reclassifications	1,256,164	(1,256,164)	-
<b>TOTAL REVENUES, GAINS, LOSSES, AND RECLASSIFICATIONS</b>	2,973,111	1,277	2,974,388
 <b>EXPENSES</b>			
Program services	1,464,605	-	1,464,605
Support services	526,918	-	526,918
<b>TOTAL EXPENSES</b>	1,991,523	-	1,991,523
 <b>CHANGE IN NET ASSETS</b>	981,588	1,277	982,865
<b>NET ASSETS, beginning of year</b>	7,939,266	8,918,208	16,857,474
<b>NET ASSETS, end of year</b>	\$ 8,920,854	8,919,485	17,840,339

See notes to financial statements.

**MALACHI HOUSE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES - CASH BASIS**  
Year Ended June 30, 2023

	Program Services	Supporting Services			Total
		Direct Care	Management and General	Fundraising	
Household expenses	\$ 265,532	-	-	-	265,532
Repairs and maintenance	65,891	-	-	-	65,891
Insurance	11,909	159	106	265	12,174
Wages	763,348	125,427	167,561	292,988	1,056,336
Payroll taxes	70,323	9,799	12,312	22,111	92,434
Medical insurance	58,504	35,333	27,256	62,589	121,093
Employee benefits	55,770	9,007	11,216	20,223	75,993
Utilities	29,275	389	259	648	29,923
Office expenses	19,400	259	172	431	19,831
Security	68,474	911	606	1,517	69,991
Staff expenses	56,179	-	-	-	56,179
Accounting	-	5,800	-	5,800	5,800
Consulting	-	-	11,110	11,110	11,110
Promotional materials and costs	-	-	75,824	75,824	75,824
Recognition event	-	-	6,160	6,160	6,160
Benefit events expenses	-	-	27,252	27,252	27,252
<b>Total Expenses</b>	<b>\$ 1,464,605</b>	<b>187,084</b>	<b>339,834</b>	<b>526,918</b>	<b>1,991,523</b>

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**NATURE OF ACTIVITIES**

The Organization is not-for-profit and provides care for terminally ill people in the final stages of life. The Organization is privately funded through the generosity of individuals, foundations, and corporations, as well as an annual benefit and other fundraising events.

**BASIS OF ACCOUNTING**

The accompanying financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Modifications to the accrual basis of accounting include not capitalizing the cost of donated or purchased property, recording revenue when received and not when earned, and recording expenses when paid and not when incurred. Accordingly, the accompanying financial statements are not intended to present the financial position and statement of activities in conformity with US GAAP.

The Organization classifies net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Net Assets without Donor Restrictions** - Consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's Board of Directors may designate the use of these net assets without restrictions for specific operational purposes at their discretion.

**Net Assets with Donor Restrictions** - Consist of net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be satisfied by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained perpetually.

**CONTRIBUTIONS AND GRANTS**

Contributions, donated securities and grants received are recorded at fair value as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Funds received with no restrictions placed on them are reported as net assets without donor restrictions. Contributions and grants that have donor restrictions are reported as net assets with donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of revenues, expenses, and other changes in net assets – cash basis.



**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**FUNCTIONAL ALLOCATION OF EXPENSES**

The organization allocates expenses on a functional basis among its program and support services. Expenditures for the direct care of residents and the operating costs of the house are reported accordingly. Expenses identified as support services for fund raising and general management are reported accordingly. Those expenses attributable to more than one functional expense category are allocated using cost allocation methods. This includes computations based on square footage or time and effort.

**CASH AND CASH EQUIVALENTS**

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying value for cash and cash equivalents approximates fair value.

**INCOME TAX**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Management represents there are no uncertain tax positions or other provisions for income taxes that are material to the financial statements.

**ADVERTISING**

Advertising costs are expensed when the advertising is paid. Advertising, promotional and marketing expense amounted to \$75,824 for the year ended June 30, 2023 and is included in promotional materials and costs.

**DONATED MATERIALS AND SERVICES**

No amounts have been reflected in the financial statements for donated materials or services because they did not meet the criteria for recognition under FASB ASC 958-605, Accounting for Contributions Received and Contributions Made. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks not requiring specific expertise that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**FAIR VALUE MEASUREMENTS**

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value is a market based measurement, not an entity-specific measurement. The accounting methodology prioritizes inputs to valuation techniques used to measure fair value into three broad Levels: Level 1, Level 2, and Level 3.

The hierarchy of the three levels is based on observable inputs as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date period.

**NOTE B - INVESTMENTS**

The Board of Trustees has established investment policies to guide investment decisions. The policies provide for the finance committee to review the asset allocation strategy set forth by the Board and monitor the performance of investment managers selected by the Board. The finance committee reports to the Board of Trustees on a quarterly basis. The investment policies describe the type of investments that may be employed to achieve the return objectives. The Board of Trustees implements an investment strategy that is diversified among equities, fixed income and an alternative investment. The investment portfolio is diversified not only in terms of asset class, but also employs a number of investment managers that provide a diversity of style and skills.

By using this approach, the Organization is attempting to limit risk while taking advantage of opportunities presented within market cycles. Investment performance is monitored against the return objectives and benchmarks established by the Board. Actual rates of return may vary from the return objectives.

**NOTE B – INVESTMENTS (continued)**

The Board of Trustees has an annual spending policy to provide for the ongoing operations of the Malachi House. The investments also may be used to provide capital for projects and innovative programs that are not part of the normal operating budget.

The asset allocation provides for investments in marketable securities with readily determinable fair value and all investments in debt securities are valued at their fair value in the statement of assets, liabilities, and net assets—cash basis. Unrealized gains and losses are included in the statement of revenues, expenses, and other changes in net assets – cash basis. Although the Organization has a diversified portfolio, a substantial portion of its realization is dependent upon the various markets in which the investments are traded and the investment manager’s ability to properly manage the portfolio.

The level 1 assets are invested with a third party brokerage firm and consist of common stock, mutual funds, municipal securities and corporate bonds and notes. The fair value estimates are based on active quoted market information for identical assets and liabilities at the measurement date.

The level 2 assets are invested with a third party brokerage firm and consist of fixed income securities and a closed end mutual fund. The fair value estimates are based on observable market information rather than market quotes. Accordingly, the estimated fair value for these investments as provided by the investment firm are included in the security amounts disclosed in level 2 of the hierarchy.

The Level 3 investments consist of a partnership interest in Cleveland Capital, L.P. and hedge funds. The Board of Trustees uses a third party entity, Cleveland Capital Management, LLC to invest the partnership funds. The control over this partnership investment, asset management and valuation is exercised by Cleveland Capital Management LLC. The carrying value is reported using the partnership capital balance. The hedge funds are held through a brokerage account and the investment carrying value is determined by an independent valuation firm. The partnership investment and the hedge funds are classified within the financial statements as an alternative investment and hedge fund investments.

The following table summarizes the investment activity for the level 3 investment for the period ended June 30, 2023:

Balance at the beginning of year	\$ 2,117,879
Unrealized investment losses	<u>59,232</u>
Balance at the end of year	\$ <u>2,177,111</u>

**NOTE B – INVESTMENTS (continued)**

Fair value measurement of investments at June 30, 2023 is as follows:

	June 30, 2023	Fair Value Measurements at Reporting Date		
		Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 7,876,430	\$ 7,876,430	\$ -	\$ -
Mutual funds	2,491,307	2,491,307	-	-
Government securities	474,047	-	474,047	-
Asset backed securities	142,229	-	142,229	-
Municipal securities	1,095,640	1,095,640	-	-
Corporate bonds and notes	1,057,356	1,057,356	-	-
Closed end funds and exchange traded products	1,876,697	1,876,697	-	-
Hedge funds	941,091	-	-	941,091
Alternative investment	1,236,020	-	-	1,236,020
	<u>\$ 17,190,817</u>	<u>\$ 14,397,430</u>	<u>\$ 616,276</u>	<u>\$ 2,177,111</u>

Cost and unrealized gains/losses of investments at June 30, 2023, are summarized as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stock	\$ 6,085,464	\$ 2,147,460	\$ 356,494	\$ 7,876,430
Mutual funds	2,610,057	84,624	203,374	2,491,307
Government securities	503,399	944	30,296	474,047
Asset backed securities	152,095	-	9,866	142,229
Municipal securities	1,178,166	5,793	88,319	1,095,640
Corporate bonds and notes	1,166,177	2,870	111,691	1,057,356
Closed end funds and exchange traded products	1,324,308	552,389	-	1,876,697
Hedge funds	1,028,509	-	87,418	941,091
Alternate investments	720,477	515,543	-	1,236,020
	<u>\$ 14,768,652</u>	<u>\$ 3,309,623</u>	<u>\$ 887,458</u>	<u>\$ 17,190,817</u>

**NOTE C – INVESTMENT EXPENSES**

Investment return is presented net of investment fees in the statement of revenues, expenses, and other changes in net assets – cash basis.

**NOTE D – ENDOWMENTS**

The Board of Directors of the Foundation has interpreted the Ohio enacted version of the Unified Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The remaining portion of the donor-restricted endowment fund that is not classified as held in perpetuity is appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

The endowment investments are included with the Foundation's investments and accordingly follow the Foundation's investment return objectives and risk parameters, the strategies used for achieving these objectives and the investment spending policies. The fair value of assets associated with individual donor-restricted endowment funds may at times fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2023.

**NOTE E – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK**

The Organization maintains deposits and investments in a financial institution and a brokerage house that at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The Organization believes that there is no significant risk with respect to these deposits or investments.

**NOTE F – PENSION PLAN**

The Organization has a defined benefit pension plan through the Catholic Diocese of Cleveland which covers substantially all of the employees of the Organization. Contributions recorded by the Organization for the year ended June 30, 2023 were \$75,993. The pension is funded through monthly contributions made by the employer. The Organization's policy is to fund contributions monthly, which meets or exceeds ERISA minimum funding requirements.

**NOTE G – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of funds established for a variety of purposes. Permanently restricted net assets are to remain in perpetuity and the Organization does not have the right to invade the original principal. The Organization has endowment funds permanently restricted in the amount of \$8,853,156. Additionally, the Organization has restricted net assets that donors contributed for a specific purpose that consist of the following:

Strategic planning	\$ 8,100
Kaki's gardens	26,765
Personal protective equipment	12,589
Art and Music Therapy	980
Care giver support	<u>17,895</u>
	\$ <u>66,329</u>

**NOTE H – LIQUIDITY AND CAPITAL RESOURCES**

The Board of Trustees regularly monitors liquidity required to meet its operating needs and other financial commitments. The Organization's financial assets for general expenditure, within one year of the Statement of Assets, Liabilities and Net Assets – Cash Basis, for general expenditures consists of the following:

Cash and cash equivalents	\$ 583,193
Investments - without restrictions	<u>8,337,661</u>
	\$ <u>8,920,854</u>

**NOTE I – EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through November 17, 2023, the date which the financial statements were available to be issued.